

1995

AICPA Professional Standards: Statement on responsibilities in personal financial planning practice as of June 1, 1995

American Institute of Certified Public Accountants. Personal Financial Planning Executive Committee

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_prof

Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

American Institute of Certified Public Accountants. Personal Financial Planning Executive Committee, "AICPA Professional Standards: Statement on responsibilities in personal financial planning practice as of June 1, 1995" (1995). *AICPA Professional Standards*. 244.

https://egrove.olemiss.edu/aicpa_prof/244

This Article is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in AICPA Professional Standards by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

AICPA

American
Institute of
Certified
Public
Accountants

AICPA PROFESSIONAL STANDARDS

Volume 2

Accounting & Review Services

Code of Professional Conduct

Bylaws

International Accounting

International Auditing

Consulting Services

Quality Control

Peer Review

Tax Practice

Personal Financial Planning

As of June 1, 1995

PFP

STATEMENTS ON RESPONSIBILITIES IN PERSONAL FINANCIAL PLANNING PRACTICE

Statements on Responsibilities in PFP Practice are published for the guidance of members of the Institute and do not constitute enforceable standards under Rule 202 of the AICPA Code of Professional Conduct. Such statements are adopted when approved by at least two-thirds of the members of the Statements of Responsibilities in PFP Practice Subcommittee and of the Personal Financial Planning Executive Committee.

TABLE OF CONTENTS

<i>Section</i>		<i>Paragraph</i>
100	Basic Personal Financial Planning Engagement Functions and Responsibilities	.01-.22
	Definition and Scope of Personal Financial Planning . . . . .	.01-.05
	Standards and Guidance Applicable to Personal Financial Planning Engagements . . . . .	.06-.09
	Responsibilities of CPAs in Personal Financial Planning Engagements . . . . .	.10-.18
	Defining the Engagement Objectives . . . . .	.10-.12
	Planning the Specific Procedures Appropriate to the Engagement . . . . .	.13
	Developing a Basis for Recommendations . . . . .	.14-.15
	Communicating Recommendations . . . . .	.16-.17
	Identifying the Tasks for Taking Action on Planning Decisions . . . . .	.18
	Other Personal Financial Planning Services . . . . .	.19-.22
	Assisting the Client to Take Action on Planning Decisions . . . . .	.20
	Monitoring the Client's Progress in Achieving Goals . . . . .	.21
	Updating Recommendations and Helping the Client Revise Planning Decisions . . . . .	.22
200	Working With Other Advisers	.01-.15
	Introduction . . . . .	.01-.03
	Responsibilities of CPAs Working With Other Advisers in Personal Financial Planning Engagements . . . . .	.04-.15
	General Standards and Guidance . . . . .	.04
	Engagement Scope Limitations . . . . .	.05-.09
	Recommending Other Advisers . . . . .	.10-.12
	Using Advice Provided by Other Advisers . . . . .	.13-.15

<i>Section</i>		<i>Paragraph</i>
300	Implementation Engagement Functions and Responsibilities	.01-.16
	Definition and Scope of Implementation . . . . .	.01-.04
	Responsibilities of CPAs in Implementation Engagements . . .	.05-.13
	General Standards and Guidance . . . . .	.05
	Planning the Engagement . . . . .	.06-.07
	Communicating With the Client . . . . .	.08-.09
	Establishing Selection Criteria . . . . .	.10
	Participation in the Selection Process . . . . .	.11
	Implementing Planning Decisions Developed by Others .	.12-.13
	Illustrations . . . . .	.14
	Appendix A—Illustration: Implementation Involving Risk Management . . . . .	.15
	Appendix B—Illustration: Implementation Involving Invest- ment Planning . . . . .	.16
400	Monitoring and Updating Engagements—Functions and Responsibili- ties	.01-.20
	Definition and Scope of Monitoring and Updating . . . . .	.01-.05
	General Standards and Guidance Applicable to Monitoring and Updating Engagements . . . . .	.06-.07
	Responsibilities of CPAs in Monitoring Engagements . . . . .	.08-.15
	Responsibilities of CPAs in Updating Engagements . . . . .	.16-.20

[The next page is 20,011.]

PFP Section 100***Basic Personal Financial Planning
Engagement Functions and
Responsibilities***

Issue date, unless otherwise indicated: October 1992

Definition and Scope of Personal Financial Planning

.01 Personal financial planning engagements are only those that involve developing strategies and making recommendations to assist a client in defining and achieving personal financial goals.

.02 Personal financial planning engagements involve all of the following:

- a. Defining the engagement objectives
- b. Planning the specific procedures appropriate to the engagement
- c. Developing a basis for recommendations
- d. Communicating recommendations to the client
- e. Identifying the tasks for taking action on planning decisions

.03 Other engagements may also include—

- a. Assisting the client to take action on planning decisions.
- b. Monitoring the client's progress in achieving goals.
- c. Updating recommendations and helping the client revise planning decisions.

.04 Personal financial planning does *not* include services that are limited to, for example—

- a. Compiling personal financial statements.
- b. Projecting future taxes.
- c. Tax compliance, including, but not limited to, preparation of tax returns.
- d. Tax advice or consultations.

.05 Personal financial planning engagements may address all of a client's personal financial goals or may focus on a limited number of goals. When an engagement addresses a limited number of specific personal financial goals, the CPA should consider the client's overall financial circumstances in developing recommendations.

Standards and Guidance Applicable to Personal Financial Planning Engagements

.06 The following is a summary of existing professional standards and published guidance that should be applied in personal financial planning engagements.

.07 The CPA should act in conformity with the AICPA Code of Professional Conduct in all matters related to a personal financial planning engagement. The CPA should carry out the engagement in conformity with—

- a. Rule 102, Integrity and Objectivity [ET section 102.01]. A member shall maintain objectivity and integrity, be free of conflicts of

interest, and not knowingly misrepresent facts or subordinate his or her judgment to others.

- b. Rule 201, General Standards [ET section 201.01]. A member shall undertake only those professional services that the member or the member's firm can reasonably expect to be completed with professional competence, shall exercise due professional care in the performance of professional services, shall adequately plan and supervise the performance of professional services, and shall obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations relating to any professional services performed.
- c. Rule 301, Confidential Client Information [ET section 301.01]. A member in public practice shall not disclose any confidential client information without the specific consent of the client.
- d. Rule 302, Contingent Fees [ET section 302.01]; Rule 503, Commissions and Referral Fees [ET section 503.01]. A member in public practice shall follow these rules in making fee arrangements.

.08 Personal financial planning often involves providing tax advice. The Tax Division of the AICPA has published guidance on tax advice in Statement on Responsibilities in Tax Practice (SRTP) No. 8, *Form and Content of Advice to Clients* [TX section 182]. In addition to the Statement on Responsibilities in Personal Financial Planning Practice, CPAs should consider the guidance in SRTP No. 8 [TX section 182] when personal financial planning activities involve tax advice. Other tax-related matters may also come to the CPA's attention in the course of providing personal financial planning services. Additional guidance on these matters may be found in other SRTPs.

.09 When a personal financial planning engagement includes providing assistance in the preparation of personal financial statements or financial projections, the CPA should consider the applicable provisions of AICPA pronouncements, including—

- a. Statements on Standards for Accounting and Review Services.
- b. Statement on Standards for Attestation Engagements *Financial Forecasts and Projections* [AT section 200].
- c. Guide for Prospective Financial Statements.*
- d. Personal Financial Statements Guide.

Responsibilities of CPAs in Personal Financial Planning Engagements

Defining the Engagement Objectives

.10 The personal financial planning engagement includes defining the objectives of the engagement so that the CPA can determine the services needed. The CPA should—

- a. Obtain an understanding of the client's goals and resources in order to determine the appropriate scope of service that will meet the client's needs.
- b. Reach an understanding with the client concerning the engagement objectives. When the CPA identifies issues not originally considered

* The *Guide for Prospective Financial Statements* was superseded by the Audit and Accounting Guide *Guide for Prospective Financial Information* in February 1993.

by the client that may require special attention, those issues should be brought to the client's attention.

- c. Evaluate the appropriateness of the original engagement objectives as the engagement proceeds.

.11 The CPA should obtain an understanding of matters such as the client's family situation, commitment to the planning process, current cash flow and assets available, personal preferences, and relationships with other professionals. This understanding can be obtained through knowledge gained during a long-term relationship with the client, inquiry, and information gathering.

.12 The CPA should document his or her understanding of the scope and nature of the services to be provided. Such documentation could be in the form of an engagement letter or in the form of file memos that document oral understandings. This documentation may include a description of (a) engagement objectives; (b) the scope of services to be provided; (c) the roles and responsibilities of the CPA, the client, and other advisors in the personal financial planning process; (d) the fee arrangements; and (e) scope limitations and other constraints.

Planning the Specific Procedures Appropriate to the Engagement

.13 The personal financial planning engagement should be adequately planned. The engagement's objectives form the basis for planning the engagement. The procedures should produce information that is useful in making planning recommendations. Procedures should be selected that are appropriate in the circumstances and reflect materiality and cost-benefit considerations. The CPA should document personal financial planning engagements in a manner that—

- a. Shows that a systematic approach to the engagement was taken.
- b. Shows that the analysis and other procedures performed provide an adequate basis for the recommendations made.

Developing a Basis for Recommendations

.14 Personal financial planning engagements involve collecting, analyzing, and integrating sufficient relevant information to develop a basis for recommendations. Relevant information includes an understanding of the client's goals, financial position, and the available resources for achieving the goals. External factors (such as inflation, taxes, and investment markets) and nonfinancial factors (such as client attitudes, risk tolerance, spending habits, and investment preferences) are also relevant information. Relevant information also includes reasonable estimates furnished by the client, provided by the client's advisors, or developed by the CPA.

.15 In personal financial planning, some information deals with the future, which is uncertain. Planning may also involve a broad range of goals, which may change as events occur. Consequently, the CPA may develop recommendations based on several selected hypothetical events.

Communicating Recommendations

.16 The CPA should communicate recommendations to the client in a manner that assists the client in evaluating strategies and implementing financial planning decisions. Such communications should ordinarily be in writing and include a summary of the client's goals and significant assump-

tions, a description of any limitations on the work performed, and the recommendations made.

.17 The following is an illustration of an appropriate communication when recommendations are made only on selected goals and the CPA communicates the parameters of the limited engagement.

We have considered ways to achieve your goal of providing for the education of your children. However, you have instructed us not to consider other planning areas that might have an impact on that goal. If we had done so, it is possible that different conclusions or recommendations might have resulted.

Identifying the Tasks for Taking Action on Planning Decisions

.18 The CPA should assist clients to identify tasks that are essential in order to act on planning decisions. The CPA may also assist the client to set target dates for the completion of tasks and identify parties responsible for completing them.

Other Personal Financial Planning Services

.19 Unless undertaken by specific agreement with the client, the CPA is not responsible for additional services. Such services include—

- Assisting the client to take action on planning decisions.
- Monitoring progress in achieving goals.
- Updating recommendations and revising planning decisions.

Assisting the Client to Take Action on Planning Decisions

.20 The CPA should have an understanding with the client, preferably in writing, regarding the degree of responsibility he or she will assume for helping the client to act upon planning decisions.

Monitoring the Client's Progress in Achieving Goals

.21 A CPA is not responsible for monitoring the client's progress in achieving goals unless the CPA undertakes this obligation by specific agreement with the client.

Updating Recommendations and Helping the Client Revise Planning Decisions

.22 A CPA is not responsible for updating recommendations unless the CPA undertakes this obligation by specific agreement with the client. The agreement should identify the scope of the CPA's responsibility for updating the plan and proposing new actions.

[The next page is 20,021.]

PFP Section 200

Working With Other Advisers

Issue date, unless otherwise indicated: October 1993

Introduction

.01 The purpose of this section is to provide guidance to the CPA who uses the work of other advisers in performing a personal financial planning engagement.

.02 Personal financial planning engagements often require the CPA to interact with other advisers. Such interaction includes, but is not limited to, the following:

- a. The CPA may use advice provided by others in developing recommendations for a client. Some advice will suggest that action be taken, other advice will provide information.
- b. The CPA may refer a client to other advisers who assist the client in securing products or services that have been identified in the personal financial planning engagement.
- c. The CPA may refer a client to advisers who provide services in areas in which the CPA either does not practice, or chooses not to practice, in a specific engagement.

.03 Circumstances in which the CPA may use the advice of other advisers or refer a client to other advisers include those in which there is a need for specialized expertise outside the scope of the CPA's practice and for services or products for which the CPA is not a licensed provider.

Responsibilities of CPAs Working With Other Advisers in Personal Financial Planning Engagements

General Standards and Guidance

.04 The CPA should apply existing professional standards and published guidance, including other published Statements on Responsibilities in Personal Financial Planning Practice (SRPFP) and the standards and guidance outlined in paragraphs 6 through 9 of SRPFP No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities* [section 100.06—.09].

Engagement Scope Limitations

.05 If the CPA does not provide a service needed to complete an engagement, he or she should restrict the scope of the engagement and recommend that the client engage another adviser who provides the needed service.

.06 If the client declines to engage another adviser, the CPA and the client may still agree to proceed with the engagement.

.07 The CPA should communicate to the client any limitation on the scope of the engagement, as well as the fact that this limitation could affect the conclusions and recommendations developed in the engagement. Such communication should ordinarily be in writing. The CPA should refer to other SRPFPs for further guidance on his or her responsibilities in engagements that are limited in scope.

.08 For example, in the CPA's judgment, a valuation of a client's business may be appropriate to complete a personal financial planning engagement;

however, undertaking such a valuation may be beyond the CPA's expertise and the client may be unwilling to incur the additional cost of an outside appraiser. The CPA and the client may therefore agree that the CPA will complete the personal financial planning engagement and develop planning recommendations using the client's estimate of the value of the business.

.09 The following is an illustration of an appropriate communication in the event that limitations are placed on the scope of information considered in the personal financial planning engagement.

At your request, an independent valuation of your business has not been obtained. Such a valuation may have affected the conclusions reached in your financial plan.

Recommending Other Advisers

.10 The CPA should become satisfied concerning the professional qualifications and reputation of another adviser before referring the client to that adviser. The CPA should consider information such as the following:

- a. The CPA's previous experience in working with the adviser
- b. The professional certification or license or other recognition of the competence of the adviser in his or her field
- c. The reputation and standing of the adviser in the views of the adviser's peers and others who have worked with the adviser
- d. The relationship, if any, of the adviser to the client

.11 When recommending another adviser to a client, the CPA should communicate to the client the nature of the work to be performed by the other adviser and the extent to which the CPA will evaluate that work. Such communication should ordinarily be in writing.

.12 The following is an illustration of an appropriate communication in the event that the CPA recommends that the client engage an attorney to take action on recommendations developed in the personal financial planning engagement.

As we discussed, you should consult an attorney to prepare updated will provisions. We have provided you with the names of several attorneys whose professional credentials and reputations are familiar to us. The selection of an attorney is your decision. Our referral does not constitute an endorsement of these attorneys or of any advice they may render.

Using Advice Provided by Other Advisers

.13 When the CPA uses the opinions of another adviser in completing the personal financial planning engagement, the CPA should understand and evaluate the adviser's opinions and the procedures used to develop them. If the CPA concurs with the other adviser's opinions, he or she need not communicate this concurrence to the client.

.14 If the CPA uses the other adviser's opinions in the engagement without evaluating these opinions, he or she should communicate that fact to the client. Such communication should ordinarily be in writing.

.15 The following are illustrations of appropriate communication for instances in which the CPA uses the advice or opinion of another adviser in a personal financial planning engagement.

- a. An appraisal provided by an outside appraiser is incorporated into a client's personal financial plan and the CPA has not evaluated the appraiser's opinion.

We have used the ABC Company's estimate of the value of your real estate in developing your financial plan. We have not evaluated their estimate and do not accept responsibility for it. If a different value were used, different recommendations may have resulted.

- b. An insurance agent has recommended that the client purchase a specific life insurance policy and the CPA, by agreement with the client, has not evaluated the agent's recommendation.

Bob Jones, CLU, has recommended that you purchase a specific life insurance policy. As agreed, we have not evaluated this recommendation and do not accept responsibility for it.

[The next page is 20,031.]

PFP Section 300

Implementation Engagement Functions and Responsibilities

Issue date, unless otherwise indicated: October 1993

Definition and Scope of Implementation

.01 Implementation engagements are those that involve assisting the client to take action on planning decisions developed during the personal financial planning engagement described in Statement on Responsibilities in Personal Financial Planning Practice (SRPFP) No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities* [section 100]. Implementation includes activities such as selecting investment advisers, restructuring debt, creating estate documents, establishing cash reserves, preparing budgets, and selecting and acquiring specific investments and insurance products.

.02 This section is intended to address only those situations in which the CPA is engaged by a client to assist in implementation activities. This section does not extend to those situations in which the CPA is functioning in a fiduciary or an agency relationship.

.03 The CPA may be engaged at one or more of the following levels to assist the client to take action on planning decisions:

- a. The CPA may refer the client to other advisers (see SRPFP No. 2, *Working With Other Advisers* [section 200]).
- b. The CPA may coordinate and/or review the delivery of services and/or products by other advisers (see SRPFP No. 2 [section 200]).
- c. The CPA may participate in implementation by establishing selection criteria.
- d. The CPA may participate in implementation by participating in the selection of service providers and/or the selection and acquisition of products.¹

.04 Implementation is typically completed when products are acquired or services are rendered in accordance with the recommendations developed during the personal financial planning engagement.

Responsibilities of CPAs in Implementation Engagements

General Standards and Guidance

.05 The CPA may be engaged to assist the client to take action on planning decisions. When undertaking an implementation engagement, the CPA should apply existing professional standards and published guidance, including other published SRPFPs and the standards and guidance outlined in paragraphs 6 through 9 of SRPFP No. 1 [section 100.06—.09].

¹ CPAs advising clients on the selection or acquisition of products (such as investments or insurance policies) should determine whether they meet the qualifications and licensing requirements established by applicable federal and state laws.

Planning the Engagement

.06 Implementation engagements vary in complexity and scope, as well as in the level of assistance to be provided by the CPA. The CPA and the client should identify and agree on the level of the CPA's assistance in implementation. Regardless of the level of assistance, implementation decisions are made by the client, not by the CPA.

.07 The CPA should document his or her understanding of the scope and nature of the implementation services to be provided and the roles and responsibilities of the CPA, the client, and other advisers. The CPA should refer to SRPFP No. 1, paragraph 12 [section 100.12], for additional documentation guidance.

Communicating With the Client

.08 The CPA should communicate information and recommendations to the client in a manner that assists the client in understanding the nature and scope of services performed by the CPA in an implementation engagement. Such communication ordinarily should be in writing and include a summary of the planning decisions being implemented, recommended actions to be taken, and a description of limitations on the work performed in the engagement and the results of the engagement.

.09 The following is an illustration of an appropriate communication in the event that a client instructs the CPA not to consider certain investment options (for example, limited partnerships) in developing implementation recommendations for funding a retirement plan.

We have evaluated investment alternatives available to fund your retirement plan. However, you have instructed us not to consider limited partnerships as an investment alternative. If we had done so, it is possible that we would have recommended a different investment strategy.

Establishing Selection Criteria

.10 The CPA who is engaged to establish selection criteria should identify those attributes or other specifications that are required to accomplish the client's objectives, subject to any constraints that result from the client's circumstances. Selection criteria may be expressed in ranges if the CPA and the client agree that such practice is useful. Since it is not always possible to secure products or services that exactly match the established selection criteria, the CPA should assist the client in prioritizing attributes so that available alternatives can be compared.

Participating in the Selection Process

.11 When the CPA is engaged to participate in selecting and acquiring products, the CPA should gather data that provides a reasonable basis for determining whether the alternatives meet the selection criteria. Upon analyzing this information, the CPA may communicate to the client his or her evaluation of all alternatives that the CPA recommends for action.

Implementing Planning Decisions Developed by Others

.12 The CPA may be engaged to assist the client in taking action on planning decisions developed in a personal financial planning engagement in which the CPA did not participate. For example, the planning decisions may have been developed by another adviser or by the client acting alone. The CPA might also be asked to assist the client in developing more specific selection criteria or exploring issues related to each planning decision, other than those established in the personal financial planning engagement.

.13 In situations such as these, the CPA should obtain a sufficient understanding of the planning decisions to effectively assist in implementation. To obtain such an understanding, the CPA should consider factors such as the client's financial goals and resources, external factors (such as inflation, taxes, and investment markets), and certain nonfinancial factors (such as family situation, client attitudes, relationships with other advisers, risk tolerance, spending habits, and investment preferences).

Illustrations

.14 Appendixes A and B [paragraphs .15 and .16] contain illustrations of possible procedures to be followed by the CPA who is engaged by a client to assist in implementing a personal financial planning decision. In each example, the initial personal financial planning engagement is presumed to have been completed before implementation, either by the CPA in the illustration or another adviser.

Appendix A

.15

Illustration: Implementation Involving Risk Management**Background**

1. The CPA is engaged to assist a client to take action on a planning decision that disability insurance be purchased. The CPA has the expertise to advise the client regarding the selection of disability insurance.

Communication

2. To assist the client to understand the implementation decision making process, the CPA should review with the client the disability coverage identified in the personal financial planning engagement, including options such as loss of earnings coverage, definition of occupation, coverage amounts, and exclusion periods.

Strategy Development and Product Selection**Planning the Engagement**

3. The CPA and the client should agree on whether the CPA, the client, or another adviser is responsible for identifying available insurance products and carriers and clearly define who is responsible for reviewing the proposals provided by the solicited insurance carriers. A schedule of required actions should be developed that includes how, when, and where the actions will take place.

- a. When selecting insurance professionals, reference should be made to SRPFP No. 2 [section 200].
- b. The rest of this illustration assumes that the CPA is responsible for identifying the appropriate insurance products and carriers and reviewing the proposals provided.

Establishing Selection Criteria

4. The CPA should identify the characteristics of disability insurance products that meet the criteria identified in the personal financial planning engagement. These characteristics generally include the following:

- a. Appropriate protection levels, considering factors such as the amount of coverage needed, how disability is defined, the waiting period to receive benefits, partial disability coverage, and duration of benefits
- b. Optional coverage conditions, such as cost-of-living adjustments, guaranteed insurability riders, and waiver of premium riders
- c. Minimum quality standards for disability coverage, generally based on the insurer's financial stability

Participating in the Selection Process

5. The CPA should identify and solicit proposals from insurance carriers whose disability products meet the established criteria.

6. When selecting a specific disability insurance product, the CPA should review and discuss with the client the financial stability of the company providing coverage and determine that the policy meets the following criteria:

- a. The client's goals, as identified in the personal financial planning engagement, are satisfied.
- b. The policy is cost effective when compared to other insurance company proposals received.
- c. The insurance carrier has demonstrated a commitment to servicing the disability market.

Documentation

7. The CPA should document meetings, discussions, or other contacts with the client and indicate the decisions regarding responsibilities for actions and product selections and the results of reviewing proposals from various insurance carriers. The CPA may supplement such documentation by indicating when the application was filled out, insurance coverage bound, and the policy issued. The CPA may also document the files to reflect any insurability issues and the ultimate resolution of those issues.

Appendix B

.16

Illustration: Implementation Involving Investment Planning**Background**

1. The CPA is engaged to assist a client in structuring an investment portfolio to take action on a planning decision that funds be invested to provide for the client's postretirement needs. The CPA has the expertise to advise the client regarding investment planning.

Communication

2. To assist the client to understand the implementation decision making process, the CPA should review with the client financial strategies, investment constraints, asset allocations, risk tolerance, and rate of return goals identified in the personal financial plan or the investment policy statement.

Strategy Development and Product Selection**Planning the Engagement**

3. The CPA and the client should agree on whether the CPA, the client, or another adviser is responsible for identifying available investment alternatives and clearly define who is responsible for reviewing prospectuses, partnership agreements, offering documents, and other such reports. A schedule of required actions, including how, when, and where these actions will take place, should be developed.

- a. Other advisers may include money managers (private and public, such as mutual fund managers), general partners of partnerships, investment bankers, and stockbrokers. When selecting other advisers, reference should be made to SRPFP No. 2 [section 200].
- b. The rest of this illustration assumes that the CPA is responsible for identifying the appropriate investment alternatives and reviewing the related documents.

Establishing Selection Criteria

4. The CPA should develop the appropriate investment strategy based on the specific investment criteria, rate of return requirements, and risk tolerance of the client, as identified in the personal financial planning engagement. This generally includes the following:

- a. Developing an appropriate investment class allocation, including the amount of investment resources to be invested in financial assets, such as cash equivalents, stocks, or bonds, and the amount of investment resources to be invested in nonfinancial assets, such as real estate or oil and gas interests.
- b. Developing an appropriate allocation within each investment class.

Participating in the Selection Process

5. When selecting specific investment assets, the CPA should review and discuss with the client the available investment alternatives and identify those investments that meet the following criteria:

- a. The client's goals, as identified in the personal financial planning engagement, are satisfied.
- b. The client's investment constraints, such as risk tolerance, capacity to assume financial risk, cash flow and asset availability, and personal preferences, as identified in the personal financial planning engagement, are honored.
- c. The diversification plans established in the client's investment strategy are achieved.

Documentation

6. The CPA should document meetings, discussions, or other contacts with the client and indicate the decisions regarding responsibilities for actions and product selections. The CPA may supplement such documentation by providing the client with an inventory of investment assets in the client's portfolio along with a description of values, yields, portfolio percentages, etc.

[The next page is 20,041.]

PFP Section 400***Monitoring and Updating Engagements—
Functions and Responsibilities***

Issue date, unless otherwise indicated: October 1994

Definition and Scope of Monitoring and Updating

.01 This section is intended to address only those situations in which the certified public accountant (CPA) is specifically engaged by a client to provide monitoring services, updating services, or both.¹

.02 Monitoring engagements are those that involve determining the client's progress in achieving established personal financial planning goals.

.03 Updating engagements are those that involve revising the client's existing financial plan and financial planning recommendations, as appropriate, in light of the client's goals, current circumstances, and current external factors.

.04 Monitoring and updating activities are typically undertaken after implementation of actions and recommendations developed during a personal financial planning engagement (see AICPA Statement on Responsibilities in Personal Financial Planning Practice [SRPFP] No. 3, *Implementation Engagement Functions and Responsibilities* [section 300]). Monitoring and updating services may be either separate or combined engagements.

.05 Updating generally occurs as a result of a monitoring engagement, but may also occur as a result of changed goals or circumstances or a lapse of time, independent of a monitoring engagement.

**General Standards and Guidance Applicable to
Monitoring and Updating Engagements**

.06 The CPA should apply existing applicable professional standards, guidance included in other published SRFPs, and the standards and guidance outlined in paragraphs 6 through 9 of SRPFP No. 1, *Basic Personal Financial Planning Engagement Functions and Responsibilities* [section 100.06—.09].

.07 The CPA should document his or her understanding of the nature and extent of the monitoring and/or updating services to be provided and the roles and responsibilities of the CPA, the client, and other advisers. The CPA should refer to paragraph 12 of SRPFP No. 1 [section 100.12] for additional documentation guidance.

Responsibilities of CPAs in Monitoring Engagements

.08 Monitoring engagements vary in complexity and scope, as well as in the nature and extent of assistance to be provided by the CPA. For example, the CPA may—

- a. Undertake some, or all, of the monitoring services.

¹ Although the CPA would typically have informed the client during a personal financial planning engagement in which planning recommendations are developed that monitoring and updating are important elements of the financial planning process, the CPA is not responsible for undertaking these services except by specific agreement with the client.

- b. Coordinate and/or review monitoring services performed by other advisers (see SRPFP No. 2, *Working With Other Advisers* [section 200]).
- c. Monitor the progress toward goals in a financial plan developed by other advisers (see SRPFP No. 2 [section 200]).

The CPA and client should agree on the nature and extent of the CPA's services in a monitoring engagement.

.09 In determining the client's progress toward achieving established financial planning goals, the CPA should—

- a. Ascertain whether all recommended actions to achieve the goals were undertaken.
- b. Measure and evaluate the actual progress toward achievement of the goals.
- c. Identify developments in the client's circumstances and in external factors that affect the financial plan.

.10 The CPA and client should agree on how frequently the progress toward the client's financial planning goals should be monitored. The CPA should use monitoring criteria that are appropriate and consistent with the criteria used to establish the financial planning goals being monitored.

.11 The CPA should focus on criteria and other factors that are important to the ultimate attainment of the financial planning goals being monitored. For example, realizing a targeted investment rate of return may be important for the ultimate achievement of the client's retirement planning goals; however, at a particular time, monitoring the client's level of spending may be more important.

.12 The CPA should communicate to the client the CPA's evaluation of progress toward achieving the client's financial planning goals. Such communication should ordinarily be in writing.

.13 As a result of a monitoring engagement, the CPA may identify differences from the expected progress toward the client's financial planning goals or other circumstances that might warrant a review or update of the existing financial plan. In this case, the CPA should evaluate whether the differences or circumstances necessitate an update of the client's existing financial plan and financial planning recommendations and advise the client accordingly.

.14 The following is an illustration of an appropriate communication in the event that the CPA, during the course of a monitoring engagement, has determined that the progress in achieving the client's financial planning goals differs from the expected progress.

Your children's college education funds have not earned the targeted rate of return assumed in your existing financial plan. If this trend continues, you will not have saved enough to meet anticipated costs. We, therefore, recommend that your education savings plan be updated.

.15 The following is an illustration of an appropriate communication in the event that the CPA, during the course of a monitoring engagement, has identified changes in the client's circumstances that warrant an update of the client's financial plan.

During the course of our monitoring engagement, we learned that you have inherited a large interest in a closely held business. This change in your business circumstances may impact several of the recommendations con-

tained in your financial plan. Accordingly, we recommend that your financial plan now be updated.

Responsibilities of CPAs in Updating Engagements

.16 Updating engagements vary in complexity and scope, as well as in the nature and extent of assistance to be provided by the CPA. The CPA should communicate to the client the fact that updating a personal financial plan affects all aspects of the plan and that all existing financial planning recommendations should be reviewed as part of the updating process. The CPA and client should agree on the nature and extent of the CPA's services in updating financial planning recommendations.

.17 An updating engagement generally involves the same functions and responsibilities outlined in SRPFP No. 1 [section 100]. Accordingly, the CPA should refer to SRPFP No. 1 [section 100], as appropriate, when engaged to update a client's personal financial planning recommendations. For example, paragraph 14 of SRPFP No. 1 [section 100.14] provides guidance on developing a basis for recommendations; the CPA should, therefore, determine whether all criteria and assumptions used as a basis for existing financial planning recommendations are still valid before developing revised recommendations.

.18 In updating a personal financial plan and financial planning recommendations, the CPA should consider the integrated nature of financial planning and the effect of revising recommendations to achieve one financial planning goal on the client's ability to achieve all other financial planning goals. For example, if, as part of updating a client's financial plan, the CPA revises the amount to be saved each month to fund retirement goals, the CPA should consider the effect of this recommendation on the client's ability to fund other goals, such as children's education, and on the client's cash flow.

.19 The CPA should communicate to the client any revisions to financial planning recommendations that arise as a result of the engagement. Such communication should ordinarily be in writing.

.20 The following is an illustration of an appropriate communication in the event that the client has engaged the CPA to update the client's estate plan, but not to revise recommendations on other financial planning issues.

Updating any portion of your personal financial plan may affect other aspects of the plan. All of your financial planning recommendations should be reviewed periodically as part of the updating process. You have asked us to update only those financial planning recommendations for achieving your estate planning goals. Had we addressed all aspects of your financial plan, different recommendations may have resulted.

[The next page is 21,001.]

PFP TOPICAL INDEX

References are to PFP section and paragraph numbers.

C

CERTIFIED PUBLIC ACCOUNTANTS

- Additional Services 100.19—22
- Assisting Client in Planning Decisions 300.03
- Communicating Recommendations 100.16—17; 300.08—09; 400.14—15; 400.19—20
- Consideration of Client's Goals 100.05; 400.09—15; 400.18
- Defining Engagement Objectives 100.10—12
- Determining Level of Service 400.08; 400.16
- Documentation 100.12—13
- Engagement Scope Limitations 200.05—09
- Establishing Selection Criteria in Implementation Engagements 300.10
- Identifying Tasks for Taking Action 100.18
- Implementing Planning Decisions Developed by Others 300.12—13
- Participating in Selection Criteria Process in Implementation Engagement 300.11
- Planning 100.10—18
- Planning Implementation Engagement 300.06—07
- Recommendations—Developing a Basis 100.14—15; 400.17
- Recommendations—Implementation Engagement 300.08—09
- Recommendations—Monitoring and Updating Engagements 400.14—15; 400.19—20
- Recommending Other Advisers 200.10—12
- Responsibilities 100.01—22; 200.04—15; 300.05—13; 400.01; 400.08—20
- Using Other Advisers' Advice 200.02—03; 200.13—15
- Working With Other Advisers 200.01—15

CLIENTS

- Additional Services of CPA 100.19—21
- Communication by CPA 100.16—17; 200.07—09; 200.11—15; 300.08—09; 400.12; 400.14—16; 400.19—20
- Definition of Personal Financial Planning Engagement 100.01
- Goals 100.05; 400.09—15; 400.18

COMMUNICATION

- Implementation Engagement 300.08—09; 300.11
- Monitoring and Updating Engagements 400.12; 400.14—16; 400.19—20
- Recommendations 100.16—17; 300.08—09; 400.14—15; 400.19—20
- Recommending Other Advisers 200.11—12
- Scope Limitations 200.07—09
- Using Other Advisers' Advice 200.13—15

CONDUCT, CODE OF PROFESSIONAL

- Personal Financial Planning Engagements 100.07

D

DOCUMENTATION

- Understanding of Engagement Scope 100.12; 300.07; 400.07

I

ILLUSTRATIONS

- Communication 300.09
- Implementation Engagement Recommendations 300.09
- Monitoring and Updating Recommendations 400.14—15; 400.19—20
- Recommendations 100.17; 300.09; 400.14—15; 400.19—20
- Scope Limitation 200.09
- Using Other Adviser's Advice 200.15
- When Recommending Other Advisers 200.12
- Implementation Engagement 300.14—16
- Investment Planning in Implementation Engagement 300.16
- Risk Management in Implementation Engagement 300.15

IMPLEMENTATION ENGAGEMENT

- Communicating With Client 300.08—09
- Completion 300.04
- CPA Assisting Client in Planning Decisions 300.03
- Definition 300.01
- Establishing Selection Criteria 300.10
- Implementing Planning Decisions Made by Others 300.12—13
- Participating in Selection Process 300.11
- Planning 300.06—07

L

LIMITATIONS

- Additional Services 100.19—22
- Scope—See Scope Limitations
- Types of Services That are Not Included in Personal Financial Planning 100.04

M

MONITORING AND UPDATING ENGAGEMENTS

- Applicable Standards and Guidance 400.06—07
- Communicating With Client 400.12; 400.14—16; 400.19—20
- CPA Responsibilities 400.01; 400.08—20
- Definition and Scope 400.01—05
- Determining Client's Progress Toward Goals 400.09—15; 400.18
- Determining Level of Service 400.08; 400.16
- Developing a Basis for Recommendations 400.17
- Functions and Responsibilities 400.01—20

P**PERSONAL FINANCIAL PLANNING**

- . Additional Services by CPA 100.19—22
- . Applicable Standards and Guidance 100.06—09; 200.04; 300.05; 400.06—07
- . Communicating Recommendations 100.16—17
- . Considering Client's Goals in Engagements 100.05; 400.09—15; 400.18
- . CPA Using Work of Other Advisers 200.01—15
- . Defining Engagement Objectives 100.10—12
- . Definition 100.01
- . Documentation 100.12—13
- . Engagement Scope Limitations 200.05—09
- . Hypothetical Events 100.15
- . Identifying Tasks for Taking Action 100.18
- . Illustrations—See Illustrations
- . Implementation Engagement 300.01—16
- . Implementing Planning Decisions Made by Others 300.12—13
- . Monitoring and Updating Engagements 400.01—20
- . Participation in & Selection Criteria Establishment in Implementation Engagement 300.10—11
- . Planning 100.10—18
- . Recommendations—Developing a Basis 100.14—15; 400.17
- . Recommendations—Implementation Engagement 300.08—09
- . Recommendations—Monitoring and Updating Engagements 400.14—15; 400.19—20
- . Recommending Other Advisers 200.10—12
- . Services Included 100.02—04

PLANNING

- . CPA Responsibilities 100.10—18

PLANNING—continued

- . Identifying Tasks 100.18
- . Implementation Engagement 300.06—07
- . Implementing Decisions Developed by Others 300.12—13
- . Specific Procedures 100.13

R**RECOMMENDATIONS**

- . Communicating 100.16—17; 400.14—15; 400.19—20
- . Developing a Basis 100.14—15; 400.17
- . Implementation Engagement 300.08—09
- . Monitoring and Updating Engagements 400.14—15; 400.19—20
- . Other Advisers 200.10—12

S**SCOPE LIMITATIONS**

- . Communication to Client 200.07—09; 300.08
- . Responsibility of CPA 200.05—09

SPECIALISTS

- . Working With Other Advisers 200.01—15

T**TAX PRACTICE**

- . Applicable Guidance for Personal Financial Planning Engagements 100.08

TERMINOLOGY

- . Implementation Engagement 300.01
- . Monitoring Engagement 400.02
- . Personal Financial Planning Engagement 100.01
- . Updating Engagement 400.03